

## **International Association of Transportation Regulators (IATR) Conference [2003]**

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How to Deal with Unforeseen Costs in a Fare-Regulated Environment

# **TAXICAB FUEL SURCHARGE**

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## **INTRODUCTION**

Most cities act as economic regulators for the taxicab industry by limiting entry and setting rates. They replace the forces of supply and demand in the marketplace. This limits revenue earned by the taxicab industry and profits can be squeezed if there are unforeseen increases in costs. That is the situation at present. Two costs, in particular, have risen dramatically during the past year or two: taxicab insurance (owner cost) and fuel prices (driver cost). Taxicab owners have the ability to pass along part of the taxicab insurance cost to the lease driver. Additionally, the taxicab lease driver must absorb all the fuel cost increases. As a result, there is a need to provide relief to taxicab drivers. A taxicab fuel surcharge helps to directly offset the increased price of fuel if it is implemented quickly and if the amount is large enough to cancel the higher cost of fuel but not so large that it reduces the number of passengers or the size of tips. Fuel surcharges were implemented in Seattle during September 2003. It is too early to report on the impacts of the fuel surcharge but the following is a short history about how fuel surcharges were implemented.

## **CHRONOLOGY OF EVENTS**

Nationally, fuel prices have been quite volatile during the past two years. The average price of a gallon of regular unleaded gasoline spiked briefly at \$1.70 during May 2001 then dropped to \$1.10 during December 2001-March 2002. For the remainder of 2002, the price was relatively stable at \$1.40. Then, in March 2003, the price spiked again at \$1.70 dropped back to \$1.50 for a few months and his spiked once more near \$1.80 in September 2003. Regional gasoline prices can vary considerably due to market conditions and taxes. In Seattle, the price of gasoline has leveled off above \$1.90. Most energy analysts believe that the quick run up in prices will be short-lived but it is uncertain whether the price will return to 2002 levels.

DISCLAIMER. This presentation was written by Craig Leisy of the Consumer Affairs Unit in Seattle, WA to promote discussion of this important issue among taxicab regulators at the annual conference of the International Association of Transportation Regulators (IATR) in Anchorage, AK during September 2003. He is responsible for any errors that it may contain. The presentation does not represent the views of the City of Seattle.

In Seattle, there was some discussion about a temporary taximeter rate increase or fuel surcharge in 2002 when gasoline prices spiked near \$1.90 about mid-year. However, the problem was short-lived and prices seemed to stabilize around \$1.40 per gallon. As a result, the need for temporary measures disappeared and the taxicab industry, the taxicab advisory group and the city began discussions about a long term fix to address the general increase in costs since the last taximeter rate boost in 1997.

More recently, in March 2003, there was another gasoline price spike to \$1.90 per gallon and the taxicab drivers requested relief. An organization representing some of the taxicab drivers in the city requested that the mayor take emergency action to approve a \$1.00 per trip surcharge. The city taxicab regulators were already busy drafting an ordinance to amend the Seattle municipal code to authorize the Director to establish a temporary fuel surcharge whenever the price of fuel exceeded the price in the previous year by 20%. The draft ordinance was introduced to the city council as Bill No. 114535 during April 2003 and was quickly passed by a 7-0 vote. At the same time the city taxicab regulators had begun work on a rule to implement the fuel surcharge. The mayor signed the ordinance and it became effective on May 31, 2003.

#### CALCULATION OF FUEL SURCHARGE

The Rule implementing the fuel surcharge included a table of price points and associated surcharges so that the Director did not have discretion over the amount of the fuel surcharge but did have discretion on whether and when to implement the fuel surcharge.

FUEL SURCHARGE	
<u>CURRENT PRICE</u>	<u>TRIP SURCHARGE</u>
\$1.40	None
1.50	None
1.60	None
1.70	\$ .40
1.80	.40
1.90	.60
2.00	.60
2.10	.80
2.20	.80
2.30	1.00
2.40	1.00
2.50	1.20
<p><u>NOTES:</u> (1) Based on \$1.40 base rate. If the taximeter rate is changed, this table will be adjusted with a new base rate.  (2) Surcharge assumes average paid trip length is 5 miles and fuel consumption is 10 miles per gallon. Fuel use per round trip is 1 gallon. (3) Fuel price is for regular unleaded gasoline as reported by the American Automobile Association <i>Daily Fuel Gauge Report</i> [<a href="http://www.fuelgaugereport.com/WAmetro.asp">www.fuelgaugereport.com/WAmetro.asp</a>].</p>	

Seattle taxicab regulators considered several factors in calculating the fuel surcharge just as they would with any other rate increase. These included: (1) a survey of fuel surcharges implemented by other cities; (2) comparison of the current taximeter rate in Seattle with other large cities; (3) analysis of the trends in taxicab industry revenue and costs; (4) estimated impact of fuel surcharge on fixed income populations that use taxicabs; and (5) estimated impact of temporary fuel surcharge on taxicab driver income.

(1) Survey of Fuel Surcharges Implemented by Other Cities. Seattle surveyed other IATR members. Subsequently, in April 2003, the IATR conducted a survey and distributed the results. The survey indicated that some cities were considering a fuel surcharge but few had implemented any. Hillsborough County, FL (Tampa) had established a \$1.00 surcharge for trips with fares of \$10 or more when the price of gasoline was above \$1.60 per gallon. Louisville, KY had established a 10% fuel surcharge on the taximeter fare when the price of gasoline was above \$1.50 per gallon.

(2) Comparison of the Current Taximeter Rate in Seattle with Other Large Cities. The current taximeter rate in Seattle was among the highest in the U.S. when it was adopted with the new taxicab ordinance which became effective on January 1, 1997. The basic taximeter rate in Seattle is \$1.80 drop, \$1.80 per mile (\$.20 per 1/9 mile increment) and \$.50 per minute. Today, the drop charge in most large cities on the west coast is in the \$2.00-\$2.50 range. The Seattle mileage rate is approximately average among the 25 largest cities in the U.S. The Seattle time rate, at \$.50 per minute (\$30 per hour), is still among the highest.

COMPARISON OF TAXIMETER RATES IN U.S. CITIES				
CITY/ COUNTY	DATE OF LAST RATE INCREASE	DROP CHARGE	PER MILE	PER HOUR
Atlanta, GA	2001	\$2.00	\$1.75	\$20.00
Albuquerque, NM	1998	2.00	1.80	20.00
Anaheim, CA	1995	1.90	2.70	22.00
Anchorage, AK	1994	2.00	1.50	24.00
Bellingham, WA	1992	1.60	1.60	20.00
Boise, ID	1991	1.80	2.10	24.00
Denver, CO	1991	1.40	1.60	22.00
Las Vegas, NV	2000	2.20	1.60	21.00
Los Angeles, CA	2001	2.00	2.00	18.00
Oakland, CA	1997	2.50	1.40	18.00
Portland, OR	1996	2.50	1.50	30.00
Sacramento, CA	1993	2.80	2.20	30.00
San Diego, CA	1999	1.80	1.90	15.00
San Francisco, CA	2000	2.50	2.00	24.00
<u>San Jose, CA</u>	1999	2.00	2.00	20.00
[Source: extracted from "Rate Comparison with Other U.S. Cities and Counties" in <i>King County Taxicab Annual Report</i> (April 1, 2002), p. 16]				

(3) Analysis of the Trends in Taxicab Industry Revenue and Costs

Licensed taxicab associations in Seattle submit a quarterly service information report summarizing operating statistics such as total paid trips, total paid miles, and average operating hours per week per taxicab. Complete year statistics are not available for 1997, when the taxicab association requirement was implemented, but 1998-2002 figures show that the number of paid miles has generally increased, except for the 2000-2001 economic recession period, and the number of operating hours per taxicab has remained relatively stable. This indicates that earnings per driver have risen somewhat during the past five years.

SEATTLE TAXICAB SERVICE INFORMATION (1998-2002)				
<u>YEAR</u>	<u>PAID TRIPS</u>	<u>PAID MILES</u>	<u>AVERAGE TRIP (MILES)</u>	<u>OPERATING HOURS (PER WEEK)*</u>
1998	2,731,618	12,028,362	4.4	74
1999	3,138,723	16,239,054	5.2	73
2000	2,949,426	14,714,456	5.0	65
2001	2,672,892	12,710,279	4.8	76
2002	2,860,390	14,855,602	5.2	81
<u>SOURCE:</u> Consumer Affairs Unit. <i>Taxicab Regulation 2002: Report Card</i> (draft)				
<u>NOTES:</u> * Weighted average. The accuracy of these figures is not considered reliable because recordkeeping practices taxicab drivers are poor. However, the trends are similar to the pattern of outbound taxicab trip counts reported by the Port of Seattle at Sea-Tac Airport:				
<u>YEAR</u>	<u>OUTBOUND TRIPS</u>	<u>PERCENT CHANGE FROM PREVIOUS YEAR</u>		
1998	372,807	+ 9.6%		
1999	433,431	+16.3%		
2000	545,262	+25.8%		
2001	541,503	- 0.7%		
2002	517,803	- 4.4%		

Taxicab drivers are normally responsible for three costs - taxicab shift lease rates, cashier charges, and fuel costs. The lease rates are established by individual taxicab owners and no comprehensive historical information is available.

However, typical lease rates have been reported by the taxicab associations in two semiannual taxicab industry cost surveys (May and December 2002). At the large taxicab associations, the lease rate range from approximately \$50-\$70 per 12-hour shift depending on whether the shift is day or night and week day or weekend. Anecdotal information indicates that these rates do not appear to have changed appreciably during the past five years. Cashier charges typically range from 3-4% of the 'paper' accepted by taxicab drivers (e.g., charge slips, contract account charges, checks, METRO taxi scrip). Fuel cost trends can be quantified by reference to the AAA Washington metro averages reported in the "Daily Fuel Gauge Report" ([www.fuelgaugereport.com/WAmetro.asp](http://www.fuelgaugereport.com/WAmetro.asp)).

### REGULAR GASOLINE PRICES IN SEATTLE

CURRENT (3/19/2003):	\$1.899
YESTERDAY (3/18/2003):	1.896
MONTH AGO:	1.698
YEAR AGO:	1.303
HIGHEST (3/19/2003):	1.899

SOURCE: [www.fuelgaugereport.com/Wametro.asp](http://www.fuelgaugereport.com/Wametro.asp) (3/19/2003)  
 "Daily Fuel Gauge Report" for Seattle-Bellevue-Everett.

Seattle taxicab regulators have tracked regular unleaded gasoline prices at two local gas stations that are regularly used by taxicabs:

### SURVEY OF GASOLINE PRICES AT SELECTED GAS STATIONS IN SEATTLE

<u>DATE</u>	<u>ARCO NEAR SEA-TAC AIRPORT</u>	<u>CHEVRON NEAR YELLOW CAB LOT</u>
January 2002	\$1.12	\$1.26
March 2002	1.10	1.24
April 2002	1.38	1.48
July 2002	1.37	1.46
August 2002	1.36	1.44
October 2002	1.28	1.42
December 2002	1.28	1.48
January 2003	1.36	1.48
February 2003	1.78	1.90
March 2003	1.84	1.94
April 2003	1.76	1.90
May 2003	1.60	1.78
June 2003		1.66
August 2003	1.74	1.86
September 2003	1.82	1.96

Based on our monitoring, fuel prices remained in the range \$1.40-\$1.50 during most of 2002. Also, AAA average prices reinforced these observations. As a result, \$1.40 was selected as the baseline for our proposed schedule of price points and associated surcharges.

#### (4) Estimated Impact of Fuel Surcharge on Fixed Income Populations That Use Taxicabs

There are several fixed income populations in Seattle that would be disproportionately impacted by *any* taxicab rate increase including: disabled persons, low income persons, retired persons, and students (or other non-drivers). These population groups depend on taxicabs for many of their day-to-day transportation needs (e.g., medical appointments, grocery shopping). Many of these persons are eligible for METRO taxi scrip coupons (50% subsidy) and the fuel surcharge will presumably increase METRO taxi scrip sales and, ultimately, their reimbursement costs. Finally, during 2002, there were approximately 250,000 DSHS/Medicaid trips provided by taxicabs under contract with Hopelink

(King County Medicaid transportation broker) and 25,000 METRO/ACCESS overflow trips provided by taxicabs under contract with METRO. The fuel surcharge will clearly have a significant impact on the transportation budgets of these organizations - and perhaps even affect the ability of DSHS to provide these transportation services. Existing federal, state and local government budget problems have already put pressure on the funding for these transportation services.

DSHS/MEDICAID TRIPS AND METRO/ACCESS TRIPS			
<u>YEAR</u>	<u>DSHS TRIPS</u>	<u>METRO TRIPS</u>	<u>TOTAL TRIPS</u>
1998	137,198	18,325	155,523
1999	153,072	40,371	193,443
2000	180,816	17,115	197,931
2001	210,371	10,231	220,602
2002	250,688	24,961	275,649
<u>SOURCE</u> : Consumer Affairs Unit. <i>Taxicab Regulation 2002: Report Card</i> (draft)			

METRO TAXI SCRIP SALES (2000-2002)		
<u>YEAR</u>	<u>SALES</u>	<u>TRIPS</u>
2000	\$397,005	60,150
2001	393,050	58,147
2002	383,003	55,775
<u>SOURCE</u> : Consumer Affairs Unit. <i>Taxicab Regulation 2002: Report Card</i> (draft)		

- (5) Estimated Impact of Temporary Fuel Surcharge on Taxicab Driver Income  
 Actual driver revenue figures are simply not available. It is a "cash" business and drivers are generally believed to underreport earnings in order to minimize income tax obligations. Trip sheets are required to be filed at taxicab association offices but, during our audits, these records are often found to be missing or incomplete. As a result, it is difficult to assess trends in driver incomes or to quantify the impact of rising fuel costs on these incomes. However, driver incomes has been estimated using a variety of information sources. It is believed that the typical taxicab driver, who leases a taxicab ("lease driver"), earns approximately \$100-\$150 per 12-hour shift after the lease payment, gasoline, and cashier costs are deducted from his total revenue. As a result, the typical "lease driver" has an annual income range of \$25,000-\$30,000. An "owner-driver" is believed to have an annual income range of \$30,000-\$40,000. Approximately 30% of the 643 Seattle taxicabs are operated by lease drivers and the remainder, about 70%, are operated by owner-drivers. It is estimated that there are about 900 lease drivers (full-time and part-time) and 450 owner-drivers. Most leased taxicabs are double shifted (day and night shifts are leased to drivers) and about half of the taxicabs operated by owner-drivers lease the second shifts.

Some of the methods used to estimate average driver income in leased taxicabs include:

Quarterly Service Information Reports and Semiannual Cost Surveys. Taxicab associations submit quarterly service information reports with totals for paid trips and paid miles. We use this information to estimate average trip length and average trip revenue:

<u>14,855,602 paid miles</u>	= 5.2 miles	average trip
length		
2,860,390 paid trips		

\$1.80 drop + (\$1.80 per mile X 5.1 miles) = \$10.98 per trip	average trip
revenue	

\$10.98 per trip X 2,860,390 paid trips = \$31,407,082	total trip
revenue	

<u>\$31,407,082 total trip revenue</u> X 1.5* = \$48,845	trip revenue
per shift	
643 taxicabs X 1.5 shifts	

[\* Adjustment for estimated underreporting of cash transactions and "hail and stand" trips, extra charges, tips, and slow/wait time revenue. Adjustments necessary because estimate calculated on distance revenue only.]

\$48,845	Trip revenue per shift (driver)
- 16,500	Lease costs (@ \$50-\$70 per shift X 5.5 days per week)
- 5,250	[\$1.50 per gallon X (30,000-40,000 miles)/10 mpg]
- 500	(25% noncash fares X 4% cashier fee)
<u>\$26,595</u>	Income per driver (annual)

Survey selected trip sheets (those that appear complete) during taxicab association audits. Normally, trip sheet totals range from \$170-\$220 which translates to \$100-\$150 after lease (\$50) and gas (\$20) - but these amounts can vary widely. Usually, a driver completes 15 trips per shift [(av. trip 5.2 miles X \$1.80 per mile + \$1.80 drop) X 15 trips  $\cong$  \$170]. Some drivers complete 20-25 trips per shift on a regular basis.

\$100	Average income per driver per shift (based on 15 trips)
X 5	Average shifts per week per driver
X 50	Weeks per year
<u>\$25,000</u>	Average income per driver per year

Anecdotal testimony from selected drivers. Drivers who work taxicab zones make fewer trips and earn less revenue than drivers who are dispatched. Most driver average \$100-\$120 per shift while good drivers average \$150 per shift, after lease payments and gas.

Surveys at North End and Redtop as representative of industry. Most of the taxicabs at these small associations are owned by the association and the trip records are generally more complete. The number of paid trips and operating hours per week are higher than the industry average.

ESTIMATE OF DRIVER INCOME AND COSTS		
	LEASE DRIVER	OWNER DRIVER
<u>INCOME*</u>	\$25,000-\$30,000	\$30,000-\$40,000
<u>COSTS</u>		
Taxicab Lease	\$50-70/shift	Not Applicable
Fuel Cost	\$1.90/gallon	\$1.90/gallon
Cashier Charge	3-4% of noncash receipts	3-4% of noncash receipts
Taxicab License	Not Applicable	\$500/year
Vehicle Cost	Not Applicable	\$2,000-\$3,000/year
Vehicle Maintenance	Not Applicable	\$3,000
Vehicle Insurance	Not Applicable	\$5,000/year
Dispatch Service Fee	Not Applicable	\$150-\$200/week
Source: Consumer Affairs Unit. <i>Taxicab Regulation 2002: Report Card</i> (draft)		
Notes: * Income is net of costs shown. Assumes double shifted taxicab affiliated with a large computer-dispatched taxicab association. Estimated costs are median of costs reported in semiannual surveys of taxicab associations conducted during 2002.		

SEATTLE AND KING COUNTY TAXICABS BY ASSOCIATION				
<u>TAXICAB ASSOCIATION</u>	<u>CITY ONLY</u>	<u>COUNTY ONLY</u>	<u>DUAL LICENSED</u>	<u>TOTAL</u>
Emerald City Taxi	26	None	8	34
Farwest Taxi	12	26	68	106
Graytop Cab	22	None	None	22
North End Taxi	None	None	22	22
Northwest Taxi	14	None	3	17
Orange Cab	84	None	76	160
Redtop Taxi	14	None	2	16
Yellow Cab	168	7	124	299
STITA	<u>None</u>	<u>166</u>	<u>None</u>	<u>166</u>
<u>TOTALS</u>	340	199	303	842
NOTE: Count on 2/14/2003.				

ACTIVE SEATTLE AND KING COUNTY FOR-HIRE DRIVERS				
<u>YEAR</u>	<u>CITY ONLY</u>	<u>COUNTY ONLY</u>	<u>DUAL LICENSED</u>	<u>TOTAL</u>
1999	42	339	916	1,297
2000	35	353	1,191	1,579
2001	34	350	1,262	1,646
2002	29	347	1,335	1,711
2003	28	330	1,340	1,698
SOURCE: King County Licensing.				
NOTE: Count ("snapshot") of active for-hire driver licenses during first week of February. Does not include inactive or pending licenses.				




To complicate matters, there is no guarantee that any taxicab rate increase will provide a corresponding increase in driver income because it is possible that taxicab owners will consider raising lease rates to help reimburse their higher vehicle purchase costs and insurance costs. One purpose of the semiannual driver/owner cost surveys begun in 2002 was to determine a baseline for lease rates in order to monitor trends and impacts on driver incomes. The proposed fuel surcharge was computed as follows:

CALCULATION OF FUEL SURCHARGE	
<u>ASSUMPTIONS.</u>	Average Trip: 5.2 miles
	Fuel Use: 10 miles per gallon
	Fuel Cost: \$1.40 per gallon (baseline)
It will require one (1) gallon of gasoline for a round trip - includes taxicab deadheading back to trip point of origin.	
<small>Source: Consumer Affairs Unit. <i>Taxicab Regulation 2002: Report Card</i> (draft).</small>	

## IMPLEMENTATION OF FUEL SURCHARGE

Rule 6.310.530I authorized the Director to establish a \$0.40 per trip temporary fuel surcharge on taximeter fares and the airport flat rate when the average price of a gallon of regular unleaded gasoline remained at or above \$1.70 for 14 days. On August 15, 2003, the price, as reported on the American Automobile Association (AAA) web site, exceeded \$1.70. On August 25, 2003, the price exceeded \$1.90. As a result, the Director implemented a \$0.40 temporary fuel surcharge on September 2, 2003 and increased the surcharge to \$0.60 on September 8, 2003. The rule requires any fuel surcharge to remain in effect for a minimum of one month. The surcharge will be extended month to month if the average price of gasoline remains above the price points.

Printed notices of the surcharge were distributed to the taxicab associations for display on the dashboard of each affiliated taxicab. The notice for each fuel surcharge is printed on different card stock for ease of enforcement by taxicab inspectors.

		
<b>FUEL SURCHARGE</b>		
<b>A temporary fuel surcharge in the amount of <u>\$ 0.40 per trip</u>, for all trips beginning in the city of Seattle, will be added to the taximeter fare or airport flat rate due to recent increases in fuel prices [SMC 6.310.530I].</b>		
<b>Seattle Taxicab #</b> _____	_____	<b>Mel McDonald</b>
		<b>Director, Revenue and Consumer Affairs</b>

## REACTION TO FUEL SURCHARGE

The city distributed press releases to all local media to announce the fuel surcharge to the public. The reporters appeared to understand the need for a fuel surcharge to provide some relief to taxicab drivers. There have been no complaints received from the public.

There were some negative reactions. Surprisingly, they generally came from the taxicab industry. Some taxicab drivers refuse to display the fuel surcharge printed notices because they are convinced that it will reduce tips. This reluctance seems to have diminished over time and especially after the surcharge was increased. The taxicab association managers had concerns about the surcharge also. They believed it was a big workload to issue and collect the printed notices and they were concerned that some taxicab drivers would try to collect a fuel surcharge on trips originating in the county (the surcharge only applies to trips originating in Seattle). They also worried that some drivers would refuse contract trips because the surcharge did not apply to contract rates – only taximeter rates and the airport flat rate.

County taxicab regulators were also apprehensive that there might be a large increase in passenger complaints due to taxicab drivers improperly asking for fuel surcharges on trips originating in the county. This does not seem to have occurred. The implementation has been remarkably uneventful.

Shuttle Express, which has an exclusive concession agreement with the Port of Seattle at Sea-Tac Airport, has received authorization from the Washington Utilities and Transportation Commission (regulates buses and shuttle van services) and has implemented a \$1.25 per trip surcharge for the month of September 2003. This surcharge applies to each passenger on these shared ride vans.

## CLOSING COMMENTS

The fuel surcharge implemented by taxicab regulators in Seattle in some ways appears small and hardly worth the effort. Some drivers, who may receive 15% tips, say the tips are much larger. However, the fuel surcharge adds \$5-\$10 per shift to the revenue of the typical taxicab driver and offsets the added cost of fuel. Often taxicab drivers don't think that taxicab regulators listen to their complaints or understand their problems. The rapid implementation of a fuel surcharge can demonstrate to the drivers who make the taxicab system work that the city is concerned. A carefully designed fuel surcharge can aid the driver without overburdening the passenger.